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SUBJECT: KAZAKHSTANI LEADERSHIP DISCUSSES ECONOMIC ISSUES,
REGIONAL INTERGRATION, WTO ACCESSION WITH A/S BOUCHER

Classified By: Ambassador John Ordway, Reasons 1.4 (b) and (d)

SUMMARY

¶1. (C) Prime Minister Masimov told Assistant Secretary Boucher during a February 11 meeting that he was seeking to implement further structural economic reforms in Kazakhstan, including tax reform. The government would also be focusing greater attention on developing human capital. Masimov stressed that Kazakhstan would not reopen the terms of existing subsoil use contracts, though would seek more favorable terms for new deals. In a separate meeting, Foreign Minister Tazhin told Boucher that in addition to Kazakhstan's assistance program for Afghanistan, the Kazakhstanis would continue to seek private investment opportunities there. Deputy Trade and Industry Minister Aitzhanova argued to Boucher that the U.S. was pressing Kazakhstan to agree to terms in its bilateral WTO accession agreement that it had not demanded of Russia. (See septel for details of Tazhin's discussion of the democratic reform commitments Kazakhstan made at the Madrid OSCE ministerial.)
End Summary.

FURTHER ECONOMIC REFORMS

¶2. (C) During separate February 11 meetings in Astana, Prime Minister Karim Masimov, Foreign Minister Marat Tazhin, and Deputy Trade and Industry Minister Zhannar Aitzhanova discussed with visiting Assistant Secretary of State Richard Boucher a range of economic issues, regional integration, and Kazakhstan's WTO accession. Masimov told Boucher that he would take advantage of the domestic reverberations of the global financial crisis to implement further structural economic reforms. Kazakhstan's financial sector, he contended, was the best in the region, but nevertheless still required structural changes. Kazakhstan is getting advice from former World Bank President James Wolfenson and his team on the issue. Masimov added that 2008 presented a unique opportunity for Kazakhstan to implement tax reform, which in part would be aimed at reducing corruption. The government is considering lowering tax rates for the non-extractive sectors of the economy, and might increase rates on the extractive sectors.

¶3. (C) Masimov explained that in the coming years, Kazakhstan would place even greater attention on developing its human capital. Kazakhstan had a good agreement with the World Bank to cooperate on health, education, and other social programs. The government would focus its efforts in particular on the critical ages for human development -- i.e., children six and under. Masimov said that the government was also considering moving to a 12-year school program from the current 11-year

one, but adding the year at the beginning rather than the end.

NEW PIPELINE

14. (C) Masimov stressed to Boucher that Kazakhstan would not reopen the terms of existing subsoil use contracts. He contended, however, that circumstances had changed and Kazakhstan would seek more favorable terms for new contracts.

Masimov had already made this clear to ExxonMobil and Chevron. Regarding energy transport, Masimov said Kazakhstan is pessimistic about expansion of the Caspian Pipeline Consortium (CPC) pipeline. As a result, Kazakhstan had begun discussing with Chevron the construction of a Baku-Batumi pipeline. Masimov said he had also spoken with Azerbaijani President Aliyev and Georgian President Saakashvili about the issue when he was in Tbilisi for Saakashvili's recent inauguration. Masimov reminded Boucher that as part of Kazakhstan's efforts to diversify transport routes, the Kazakhstanis had recently purchased an oil terminal in Batumi and a controlling stake in Rompetrol. The Kazakhstanis are considering buying or building a terminal in Constanza, he added.

REGIONAL COOPERATION

15. (C) Masimov told Boucher that President Nazarbayev had made a decision to provide assistance, in the form of free and discounted fuel oil (mazut), to Kyrgyzstan and Tajikistan to help them get through the difficult winter. He stressed

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that energy and water cooperation with Kyrgyzstan, as well as with Tajikistan, is extremely important for Kazakhstan. Masimov explained that because of the manner in which Kyrgyzstan is operating its hydroelectric dams, too much water flows from Kyrgyzstan into Kazakhstan in the winter and not enough in the summer. This can cause tensions. Kazakhstan is discussing the issue with Kyrgyzstan bilaterally, and is building a reservoir to try to mitigate the problem.

AFGHANISTAN

16. (C) Foreign Minister Tazhin told Boucher that U.S. and Coalition efforts in Afghanistan have been critical to the Central Asian states, particularly in mitigating the cross-border terrorism threat. Boucher encouraged the Kazakhstanis to implement expeditiously their planned assistance for Afghanistan. Tazhin admitted that the approximately \$3 million Kazakhstan allocated for its 2008 assistance program was modest, but stressed that this nevertheless sent an important signal. Kazakhstan had additionally offered to provide police training, but was waiting for the Afghans to give a concrete response. Tazhin said the Kazakhstanis would continue to explore private investment opportunities in Afghanistan. Masimov told Boucher that he hoped to make his first visit to Afghanistan this year, and would bring a business delegation with him.

WTO ACCESSION

17. (C) Deputy Trade and Industry Minister -- and Kazakhstan's lead WTO negotiator -- Zhannar Aitzhanova told Boucher that Kazakhstani had finally concluded a bilateral WTO accession agreement with Canada. (Note: The agreement was subsequently signed on February 13. End Note.) Kazakhstan's next priorities for accession agreements would be the EU and

Australia. She claimed Kazakhstan and the EU had reached agreement on all but a handful of issues.

¶8. (C) Aitzhanova was less optimistic about negotiations with the U.S. She contended that the U.S. was asking Kazakhstan to agree to conditions that it was not demanding of Russia. This presented a major political problem, because the Kazakhstani parliament would find it difficult to approve an accession agreement with the U.S. that had worse terms than the agreement reached between Russia and the U.S. She claimed, for example, that the U.S. side had agreed to Russian GMO labeling so long as it was codified in the country's consumer protection law, but U.S. negotiators want Kazakhstan to completely repeal its GMO labeling provisions. Similarly, she claimed that the U.S. had agreed to a nine-year transition period with Russia on branching rights for foreign financial institutions. Kazakhstan was willing to agree to a six-year transition period, but the U.S. insists it can only offer two or three years.

¶9. (C) Aitzhanova explained that Kazakhstan needed significant expert assistance to determine the full implications of the proposals of the U.S. and other countries with which it is negotiating accession agreements. This is one reason why it is difficult for Kazakhstan to accelerate negotiations. She praised USAID for the expert advice it has provided to Kazakhstan.

EXPORT DUTIES

¶10. (C) Boucher asked Aitzhanova about Kazakhstan's reported plans to levy export duties on crude oil and oil products. Aitzhanova explained that Kazakhstan expected to introduce the duties on January 1, 2009. The aim was to increase budget revenues so that the government could follow through on planned assistance to the banking and construction sectors to mitigate the effects of the global financial crisis. Aitzhanova admitted that the export duties might raise issues in Kazakhstan's WTO accession negotiations, but she noted that other countries, including Russia, have similar duties.

ORDWAY